



# CALIFORNIA Economic Indicators

November-December 2008

## A Gloomy Outlook

The state's economic distress has broadened significantly.

### ■ REVIEW OF RECENT ECONOMIC DEVELOPMENTS

California continued to track the nation's economic slowdown. Economic indicators show that the state's downturn is no longer concentrated in residential construction and the housing-related part of the financial sector. Most notably, retail trade is contracting. Only four industry sectors gained jobs in October. Construction activity, both residential and nonresidential, continued to weaken. The only encouraging sign was a resurgence of existing home sales.

### EMPLOYMENT

#### Job losses accelerate

Job losses increased as 2008 progressed. California lost 26,400 nonfarm jobs in October, following a revised loss of 10,900 jobs in September. In the five months ending with October, the state lost 15,700 jobs each month on average. During the first five months of the year, the average monthly loss was 5,200.

In contrast to the beginning of the year, when losses were largely confined to sectors connected to residential construction and real estate, the recent losses are more broad based. In October, modest gains were made in only four of the state's major industry sectors. Educational and health services added 2,400 jobs; government, 1,200; leisure and hospitality, 900; and natural resources and mining, 100. Seven sectors lost jobs. Trade, transportation, and utilities lost 11,500 jobs; professional and business services, 6,500; manufacturing, 5,700; construction, 2,400; financial activities, 2,100; information, 1,700; and other services, 1,100.

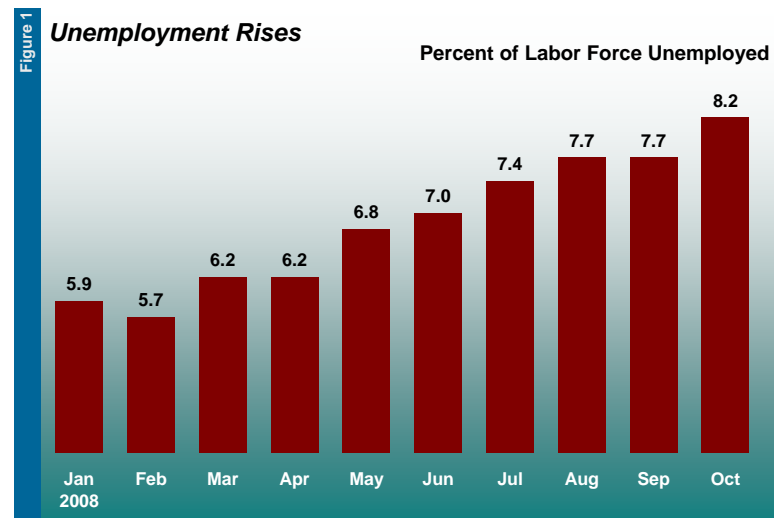
Job losses also accelerated on a year-over-year basis as 2008 progressed. There were small offsetting year-over-year gains and losses during the first four months of the year. In October, however, nonfarm payroll employment fell by 101,300 from a year earlier, a 0.7-percent loss, with employment rising 52,100 in educational and health services; 15,800 in government; 8,000 in leisure and hospitality; and 1,400 in natural resources and mining. Employment fell by 65,900 in construction; 38,700 in trade, transportation, and utilities; 31,800 in financial activities; 31,500 in manufacturing; 5,800 in professional and business services; 3,600 in other services; and 1,300 in information.

#### Unwelcome unemployment news

California's unemployment rate rose 0.5 percentage point to 8.2 percent in October. This was the highest rate since September 1994 and was also 2.5 percentage points higher

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*California's labor market conditions steadily deteriorated throughout 2008.*

than the 5.7 percent rate in October 2007—the largest year-over-year jump since December 1982.

California was clearly following the national trend. The U.S. unemployment rate jumped 0.4 percentage point to 6.5 percent in October, which was the nation's highest rate since March 1994. The U.S. unemployment rate rose by 1.7 percentage point from a year earlier—the nation's largest year-over-year increase since December 2001.

## BUILDING ACTIVITY

### Fewer homes being built

The pace of new home construction slowed again in October, for the fifth consecutive month-over-month decline. Residential permits were issued at a seasonally adjusted annual rate of 51,400 units, down 48 percent from a year earlier—again the lowest level of activity according to data that reaches back to 1973. Single-family permits were down 44 percent, while multi-family permitting was down 53 percent. At its most recent peak in September 2005, residential permitting reached an annual pace of 264,300 units. New home permitting during the first 10 months of 2008 was down 44 percent from the same months of 2007. In October, national home construction permitting was off 40 percent from a year earlier.

### No help from nonresidential construction

Nonresidential construction posted gains long after the real estate crisis began, but this changed in 2008. Nonresidential construction slowed in October for its third consecutive monthly decline, and the sixth decline of the first 10 months of 2008. With permits issued at an annual pace of \$14.7 billion, October was the weakest month since February 2004. Permitting was down 36 percent in October from a year earlier. For the first 10 months of 2008 as a whole, nonresidential permitting was down 10.5 percent from the same months of 2007. Slowing office and retail construction accounted for the lion's share of the slowdown. Office construction permitting was off over 30 percent.

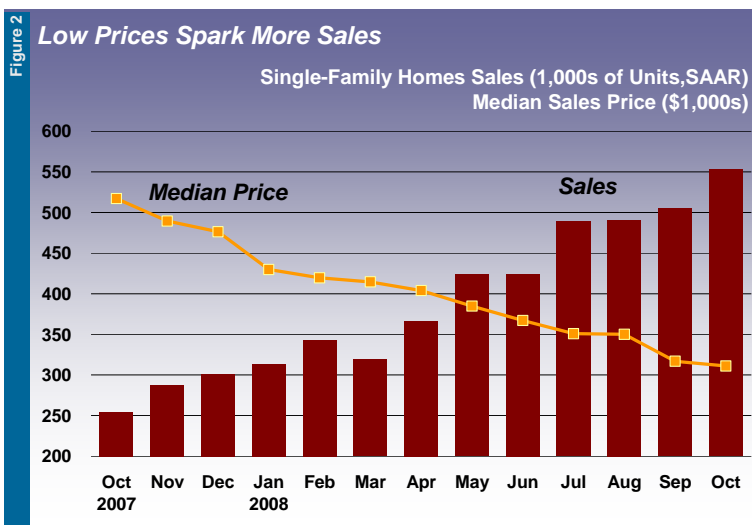
## REAL ESTATE

### Bargain prices lead to better home sales

Existing home sales rose for the seventh straight month in October, rising to more than twice the rate posted a year earlier. Sales of existing, single-family detached homes totaled 552,750 units at a seasonally adjusted annualized rate. A year earlier, home sales were at their lowest point of this housing slump, reaching only 254,700 units.

Rising sales translated into better inventory readings. The California Association of Realtors' unsold inventory index<sup>1</sup> ratcheted down to 5.9 months in October, from 6.5 months in September. It peaked at 16.8 months in January 2008. Similarly, the median number of days needed to sell a home slid to 45 days—26 days shorter than at the start of the year.

Weakening home prices undoubtedly contributed to the improvement in sales. The median price of existing, single-family homes sold in October was \$311,000, down 40 percent from a year earlier.



**Falling home prices led to a significant improvement in sales.**

<sup>1</sup> The number of months needed to deplete the supply of homes on the market at the current sales rate.

# ECONOMIC FORECAST UPDATE

*The following is from the Special Session of the Governor's 2008-09 Budget. The forecasts were prepared in November 2008 and were based on information available at that time.*

Less than six weeks after the enactment of the 2008-09 budget, a string of weak economic statistics, arriving during a spreading credit crunch and the bankruptcies and rescues of several financial institutions, has convinced most economists that the national economy is in recession. Most persuasive was a sharp fall in consumer spending in the third quarter of 2008 and a stock market collapse in October. Mounting job losses, falling home prices, plunging equity prices, and tight credit conditions have worn down consumers. One widely followed measure of consumer confidence – The Conference Board Consumer Confidence Index – fell to a record low in October. Slower consumer spending is, in turn, dampening business spending on equipment and structures.

While economic statistics on the California economy are fewer and less timely than those on the national economy, there is no doubt that the California economy is experiencing the same pressures as the national economy. Job losses have grown in recent months. The state's unemployment rate has risen quickly in the last year and is considerably higher than the national rate. Housing prices are falling faster in the state than in the nation. Taxable sales were below year-ago levels in the most recent four quarters of available data. Auto sales have dropped farther in the state than the nation.

The outlook for the national and California economies has deteriorated considerably since the budget enactment. Weaker GDP growth, bigger job losses, and smaller personal income gains are now expected in 2009. Whereas a short, modest economic decline was expected before, a deeper and longer decline is much more likely now. How long and how deep depends largely on how long it takes for credit to become much more available.

## THE NATION

Real GDP decreased 0.3 percent in the third quarter of 2008, with the weakness widely spread across major spending categories. A 3.1-percent drop in consumer spending—the largest percentage decline in 28 years—did most of the damage. Business equipment spending and residential construction also fell, and export growth slowed.

The economy ended the third quarter much weaker than it began, and this was before the stock market delivered its greatest drop in 21 years in October with paper losses of \$2.5 trillion. Retailers are expected to report very weak October sales, which will bode poorly for holiday sales. The fourth quarter of 2008 is expected to be considerably weaker than the third quarter.

The Federal Reserve and U.S. Treasury took dramatic steps in September and October to reinvigorate credit markets. On October 29, the Federal Reserve lowered by one-half percentage point its target for the interest rate banks charge one another for short-term loans. This brought the target rate to 1 percent, leaving the central bank very little room to further ease monetary policy. Thus, it appears increasingly likely that Congress will enact another economic stimulus package.

## CALIFORNIA

California labor markets have weakened as 2008 has progressed. In the first nine months of the year, California lost 78,600 jobs, but in the first five months the average monthly loss was 5,200 jobs, while in the last four months, it was 13,200 jobs. Seven of the 11 major industry sectors have lost jobs since the end of 2007, with construction, retail trade, and financial activities—which includes real estate and mortgage lending services—accounting for the bulk of the job losses. The state's unemployment rate began 2008 at 5.9 percent and quickly rose to 7.7 percent in August and September.

California's housing slump continues to be a significant drag on the economy. But home sales have started to pick up, especially sales of distressed houses. New home sales remain at low levels. Average home prices continue to drop. In September, the median price of existing homes sold, \$316,500, was 41 percent lower than the median price a year earlier. Some of the decline is due to a changing mix of homes that have sold—more moderately priced homes and fewer expensive homes. Unsold inventories have stabilized at six months of sales at current monthly sales rates. Single-family home building appears to have stabilized at very low rates.

## THE OUTLOOK

The outlook for the state and national economies darkened considerably as 2008 progressed and accelerated through the end of October. Economic growth was already expected to be low before the credit and stock market turmoil developed. Recent economic statistics point to considerable economic weakness in the fourth quarter of 2008 and in 2009. It appears that consumers will get little reprieve from job losses, falling home prices, and low equity prices. The state's unemployment rate could exceed 10 percent in some months of 2009 and 2010. The impact of the financial rescue measures enacted by Congress

in October is uncertain at this point. The national and California economies will face strong headwinds in 2009 and the first half of 2010.

A new forecast will be prepared for the Governor's Budget that will incorporate new economic data released in November and be informed by events and other forecasts that become available in the next few weeks.

Figure 3 shows selected economic indicators used in the current forecast.

**Figure 3**

### Special Session Economic Outlook

Percentage changes unless otherwise noted.

	2008 (Est.)	2009 (Projected)	2010 (Projected)
<b>Selected United States Economic Indicators</b>			
Real gross domestic product	1.4	-0.9	1.6
Personal income	4.3	1.9	2.6
Corporate profits before taxes	-12.2	1.4	6.3
Nonfarm wage and salary employment	-0.1	-1.6	0.2
Unemployment rate (Percent)	5.7	7.6	8.1
Housing starts (1,000s of units)	931	737	1,013
<b>Selected California Economic Indicators</b>			
Personal income	4.0	2.2	2.6
Nonfarm W&S employment	-0.4	-1.2	-0.4
Unemployment rate (Percent)	7.0	9.0	9.7
Housing permits (1,000s of units)	67	64	83

Forecast based on data available as of October 2008.  
Percent changes calculated from unrounded data.  
All levels are annual averages.  
All percentages are one-year growth rates of levels  
or the ratio of levels that are annual averages.

# Select Indicators

	2007	2008				Year-Over
	Nov	Aug	Sep	Oct	Nov	% Change
<b>EMPLOYMENT (Seasonally adjusted)</b>						
Civilian employment (000)	17,238	16,994	17,067	17,052	17,017	-1.3%
Unemployment (000)	1,050	1,421	1,431	1,530	1,562	48.9%
Unemployment rate	5.7	7.7	7.7	8.2	8.4	--
Nonagricultural wage and salary employment (000) a/	15,159.6	15,104.0	15,093.1	15,065.3	15,023.6	-0.9%
Goods-producing industries	2,340.8	2,265.2	2,263.4	2,252.3	2,242.2	-4.2%
Natural resources and mining	25.6	26.8	26.9	27.0	27.2	6.3%
Construction	861.4	808.4	805.0	799.4	793.7	-7.9%
Manufacturing	1,453.8	1,430.0	1,431.5	1,425.9	1,421.3	-2.2%
Service-providing industries	12,818.8	12,838.8	12,829.7	12,813.0	12,781.4	-0.3%
Trade, transportation, and utilities	2,909.3	2,889.6	2,883.8	2,869.7	2,843.5	-2.3%
Information	471.2	472.6	473.8	473.4	477.2	1.3%
Financial activities	889.0	868.1	865.2	863.1	860.7	-3.2%
Professional and business services	2,274.5	2,274.7	2,272.0	2,268.1	2,261.1	-0.6%
Educational and health services	1,681.5	1,721.0	1,726.1	1,730.3	1,736.5	3.3%
Leisure and hospitality	1,556.8	1,562.8	1,563.2	1,559.8	1,554.3	-0.2%
Other services	518.1	516.3	515.2	514.3	514.9	-0.6%
Government	2,518.4	2,533.7	2,530.4	2,534.3	2,533.2	0.6%
Federal government	245.8	248.4	247.3	250.3	247.9	0.9%
State and local government	2,272.6	2,285.3	2,283.1	2,284.0	2,285.3	0.6%
High-technology industries b/	872.0	874.0	872.3	868.4	868.3	-0.4%
Computer and electronic products manufacturing	305.1	305.4	304.8	303.1	302.8	-0.8%
Aerospace products and parts manufacturing	71.6	71.3	71.2	71.1	71.2	-0.6%
Software publishers	43.4	44.0	43.4	43.1	43.0	-0.9%
Telecommunications	122.2	120.9	120.7	119.0	119.0	-2.6%
Internet service providers	21.7	21.1	20.9	20.6	20.6	-5.1%
Computer systems design	201.2	203.0	202.9	202.7	202.7	0.7%
Scientific research and development	106.8	108.3	108.4	108.8	109.0	2.1%
<b>HOURS AND EARNINGS IN MANUFACTURING (Not seasonally adjusted)</b>						
Average weekly hours	40.7	40.7	40.7	40.7	40.6	-0.2%
Average weekly earnings	\$667.07	\$676.03	\$685.80	\$688.24	\$689.79	3.4%
Average hourly earnings	\$16.39	\$16.61	\$16.85	\$16.91	\$16.99	3.7%
<b>CONSUMER PRICE INDEX (1982-84=100) (Not seasonally adjusted)</b>						
All Urban Consumers Series						
California Average	n.a.	228.0	n.a.	226.6	n.a.	--
San Francisco CMSA	n.a.	225.4	n.a.	225.8	n.a.	--
Los Angeles CMSA	219.9	228.5	227.4	226.2	222.2	1.0%
Urban Wage Earners and Clerical Workers Series						
California Average	n.a.	220.9	n.a.	219.2	n.a.	--
San Francisco CMSA	n.a.	221.4	n.a.	221.2	n.a.	--
Los Angeles CMSA	212.8	221.2	220.3	218.7	214.1	0.6%
<b>CONSTRUCTION</b>						
Private residential housing units authorized (000) c/	77	55	57	51	70	-9.2%
Single units	46	28	31	30	23	-49.5%
Multiple units	31	27	26	21	47	51.2%
Residential building authorized valuation (millions) d/	\$22,092	\$16,140	\$16,755	\$15,784	\$17,057	-22.8%
Nonresidential building authorized valuation (millions) d/	\$23,301	\$18,678	\$17,146	\$15,589	\$14,727	-36.8%
Nonresidential building authorized valuation (millions) e/	\$1,764	\$1,606	\$1,484	\$1,353	\$1,024	-42.0%
Commercial	776	564	448	342	224	-71.1%
Industrial	129	89	67	78	15	-88.6%
Other	209	275	289	227	187	-10.6%
Alterations and additions	650	677	681	706	598	-8.0%
<b>AUTO SALES (Seasonally adjusted)</b>						
New auto registrations (number)	143,416	95,673	107,228	98,691	76,229	-46.8%
a/ The wage and salary employment information is based on the new North American Industry Classification System (NAICS).						
b/ Not seasonally adjusted						
c/ Seasonally adjusted at annual rate						
d/ Seasonally adjusted						
e/ Not seasonally adjusted						
n.a. Not available						

# Select Indicators (continued)

VACANCY RATES FOR THIRD QUARTER 2008									
(Percent)									
		Office		Office		Office		Industrial	
		Downtown		Suburban		Metropolitan			
		3Q08	3Q07	3Q08	3Q07	3Q08	3Q07	3Q08	3Q07
Northern and Central California:									
Oakland		11.9	10.1	13.4	11.5	13.1	11.2	NA	NA
Sacramento		12.6	12.8	16.9	13.4	16.0	13.3	10.3	9.9
San Francisco		10.4	8.2	12.4	9.1	11.1	8.5	10.9	10.4
San Jose		18.0	13.2	12.9	9.2	14.1	10.1	NA	NA
Southern California:									
Los Angeles Metro		13.1	13.4	9.7	8.4	10.2	9.1	9.6	7.7
Orange County		NA	NA	17.4	11.5	17.4	11.5	10.7	5.9
San Diego		13.8	12.8	17.8	11.9	17.1	12.0	10.5	10.5
Ventura County		NA	NA	18.4	12.4	18.4	12.4	NA	NA
National Average		10.9	10.3	15.8	13.9	14.1	12.6	11.4	9.9
SALES OF EXISTING SINGLE-FAMILY HOMES				FOREIGN TRADE THROUGH CALIFORNIA PORTS		DOD PRIME CONTRACTS a/			
		Median Price	Units (SAAR)	Exports (\$ millions)	Imports (\$ millions)			\$ millions	% of U.S.
2004	Jan	\$404,463	615,659	\$9,062	\$19,996	1993-94		22,573	20.5%
	Feb	391,550	589,220	9,536	18,011	1994-95		18,277	16.8%
	Mar	428,060	590,220	11,420	22,589	1995-96		18,230	16.7%
	Apr	452,680	640,710	10,249	21,722	1996-97		18,477	17.3%
	May	463,320	632,380	10,460	21,760	1997-98		17,401	15.9%
	Jun	468,050	633,660	10,481	23,971	1998-99		17,372	15.1%
	Jul	462,145	639,910	10,388	24,162	1999-00		18,100	14.7%
	Aug	473,520	591,150	10,118	24,127	2000-01		19,939	14.7%
	Sep	463,630	626,210	10,446	23,974	2001-02		23,816	15.0%
	Oct	459,530	639,571	10,460	25,279	2002-03		28,681	15.0%
	Nov	471,980	652,340	9,792	25,769	2003-04		27,875	13.7%
	Dec	474,270	645,860	10,628	22,863	2004-05		31,065	13.1%
2005	Jan	\$484,580	659,410	\$9,405	\$22,776				
	Feb	470,920	608,160	9,756	21,738				
	Mar	496,550	634,700	11,390	23,735				
	Apr	509,630	658,060	10,356	24,337				
	May	522,590	618,920	10,882	24,774				
	Jun	542,330	656,310	11,108	26,153				
	Jul	539,840	647,910	10,828	26,452				
	Aug	567,320	632,240	11,166	26,452				
	Sep	543,510	650,780	10,825	28,012				
	Oct	538,770	621,530	11,371	28,847				
	Nov	548,680	579,560	11,194	27,030				
	Dec	547,400	531,910	11,709	26,024				
2006	Jan	\$549,460	500,470	\$10,848	\$25,555				
	Feb	534,400	513,740	10,791	23,004				
	Mar	562,130	539,170	13,336	27,722				
	Apr	562,380	516,960	11,991	27,005				
	May	563,860	488,260	12,306	28,090				
	Jun	575,850	483,690	12,664	29,621				
	Jul	567,860	453,980	12,255	29,990				
	Aug	577,300	442,150	12,720	31,550				
	Sep	557,150	444,780	12,567	30,608				
	Oct	552,020	443,320	12,913	32,200				
	Nov	554,500	450,930	12,676	29,747				
	Dec	569,350	452,060	12,756	28,396				
2007	Jan	\$551,220	446,820	\$12,325	\$28,025				
	Feb	554,280	480,170	11,717	26,183				
	Mar	582,930	422,300	13,954	27,815				
	Apr	594,110	357,460	12,360	28,049				
	May	594,530	358,640	13,283	28,734				
	Jun	591,280	357,890	13,864	29,961				
	Jul	587,560	341,130	12,837	30,537				
	Aug	588,670	313,310	13,527	31,206				
	Sep	535,760	255,340	13,375	30,962				
	Oct	517,240	254,650	14,511	33,415				
	Nov	490,511	280,920	13,483	31,767				
	Dec	476,380	301,040	14,313	29,615				
2008	Jan	\$429,790	313,580	\$13,016	\$28,280				
	Feb	419,640	343,220	13,664	27,306				
	Mar	414,640	318,830	14,868	27,996				
	Apr	403,870	366,720	14,308	29,907				
	May	384,840	423,700	15,023	30,640				
	Jun	367,130	424,180	15,800	31,269				
	Jul	350,890	489,080	15,992	33,976				
	Aug	350,140	490,850	15,206	31,892				
	Sep	316,960	504,795	14,545	31,994				
	Oct	301,740	552,750	14,485	32,308				
	Nov	285,680	514,710	12,290	26,322				
a/ U.S. fiscal year: October through September				NA Not available					

# Leading Indicators <sup>a/</sup>

		Manufacturing		Unemployment	New	Housing Unit
		Overtime	Average	Insurance	Business	Authorizations
		Hours	Weekly Hours	Claims	Incorporations	(Thousands)
2004	Jan	4.0	40.0	50,262	8,219	204.0
	Feb	3.9	40.2	50,215	8,570	205.1
	Mar	4.2	40.2	48,845	8,395	208.9
	Apr	4.4	39.9	48,663	8,549	202.7
	May	4.4	40.4	46,437	7,950	202.5
	Jun	4.2	39.9	49,581	8,778	209.5
	Jul	4.4	40.1	48,549	8,524	195.9
	Aug	4.2	40.1	47,823	8,404	223.5
	Sep	4.1	39.3	47,338	8,804	210.9
	Oct	4.2	39.7	47,295	8,045	210.4
	Nov	4.4	39.9	47,341	8,980	249.1
	Dec	4.5	39.9	48,188	8,970	226.5
2005	Jan	4.5	40.2	50,011	5,986	204.8
	Feb	4.5	40.0	46,613	8,933	195.6
	Mar	4.4	40.0	45,084	9,290	215.7
	Apr	4.5	40.0	43,844	9,586	204.7
	May	4.3	40.0	43,211	9,353	217.6
	Jun	4.3	39.6	42,341	9,275	213.7
	Jul	4.3	39.8	41,141	9,022	230.5
	Aug	4.7	39.9	41,131	9,290	194.5
	Sep	4.5	40.0	41,437	9,154	269.9
	Oct	4.4	40.5	39,984	8,592	191.0
	Nov	4.3	39.9	39,978	9,075	198.2
	Dec	4.2	39.4	41,352	9,017	178.7
2006	Jan	4.3	40.2	41,651	9,158	190.1
	Feb	4.5	40.3	38,711	8,646	210.0
	Mar	4.4	40.1	42,336	9,641	168.9
	Apr	4.3	40.2	43,184	8,478	180.5
	May	4.4	40.2	42,531	9,323	156.3
	Jun	4.4	40.4	40,533	8,598	200.3
	Jul	4.3	40.4	42,662	8,241	141.0
	Aug	4.1	40.1	42,949	9,203	151.8
	Sep	4.0	40.2	42,154	8,512	151.0
	Oct	4.2	40.5	42,070	8,878	141.6
	Nov	4.1	40.3	43,305	9,107	134.9
	Dec	4.2	40.8	45,290	8,648	141.1
2007	Jan	4.1	40.5	42,735	9,223	142.0
	Feb	3.9	40.2	42,805	8,836	124.4
	Mar	3.9	40.3	43,454	8,773	143.7
	Apr	3.9	40.5	43,033	8,354	124.9
	May	4.1	40.5	44,729	8,552	115.7
	Jun	4.1	40.6	45,168	8,835	99.6
	Jul	4.0	40.8	45,494	8,536	115.7
	Aug	4.1	40.7	46,201	9,512	120.2
	Sep	4.1	40.7	46,601	8,368	88.4
	Oct	4.1	40.6	49,039	8,864	99.4
	Nov	3.9	40.6	48,732	9,393	77.0
	Dec	3.8	40.4	49,154	8,224	96.6
2008	Jan	3.8	40.4	50,132	7,996	69.9
	Feb	3.9	40.7	47,190	8,768	77.1
	Mar	4.0	40.9	50,184	7,670	53.0
	Apr	4.2	41.2	51,874	8,578	73.0
	May	3.8	40.8	51,928	8,108	80.3
	Jun	3.9	40.7	54,387	7,970	71.9
	Jul	4.0	40.9	60,609	7,983	65.4
	Aug	3.9	40.5	63,198	7,123	55.1
	Sep	3.9	40.5	62,757	7,644	57.4
	Oct	3.7	40.6	66,616	7,368	50.9
	Nov	3.4	40.5	72,541	6,279	69.9
a/ Seasonally adjusted by the California Department of Finance.						

# Coincident Indicators <sup>a/</sup>

		Nonagricultural	Manufacturing	Unemployment	Unemployment
		Employment	Employment	Rate	Avg. Weeks Claimed
		(Thousands)	(Thousands)	(Percent)	(Thousands)
2005	Jan	14,651	1,524	5.9	400
	Feb	14,685	1,520	5.7	393
	Mar	14,695	1,515	5.5	385
	Apr	14,747	1,517	5.5	371
	May	14,739	1,512	5.5	366
	Jun	14,750	1,510	5.5	374
	Jul	14,808	1,519	5.3	359
	Aug	14,840	1,514	5.3	360
	Sep	14,874	1,512	5.2	337
	Oct	14,895	1,512	5.2	345
	Nov	14,931	1,511	5.1	337
	Dec	14,953	1,509	5.1	325
2006	Jan	14,957	1,511	5.1	337
	Feb	14,999	1,511	4.9	335
	Mar	14,994	1,508	4.9	343
	Apr	14,984	1,503	5.0	358
	May	15,030	1,503	4.9	336
	Jun	15,060	1,501	4.9	335
	Jul	15,085	1,501	4.8	342
	Aug	15,110	1,499	4.9	339
	Sep	15,122	1,500	4.8	339
	Oct	15,162	1,506	4.8	342
	Nov	15,188	1,507	4.7	348
	Dec	15,213	1,507	4.8	348
2007	Jan	15,136	1,476	5.0	357
	Feb	15,159	1,473	5.0	358
	Mar	15,178	1,470	5.0	349
	Apr	15,139	1,466	5.2	359
	May	15,162	1,465	5.3	368
	Jun	15,172	1,464	5.3	353
	Jul	15,193	1,467	5.4	371
	Aug	15,182	1,459	5.5	372
	Sep	15,170	1,457	5.6	395
	Oct	15,168	1,457	5.7	401
	Nov	15,160	1,454	5.7	381
	Dec	15,171	1,452	5.9	427
2008	Jan	15,142	1,450	5.9	418
	Feb	15,165	1,447	5.7	408
	Mar	15,163	1,448	6.2	455
	Apr	15,154	1,446	6.2	476
	May	15,145	1,442	6.8	460
	Jun	15,132	1,437	7.0	465
	Jul	15,117	1,433	7.4	489
	Aug	15,104	1,430	7.7	515
	Sep	15,093	1,432	7.7	548
	Oct	15,065	1,426	8.2	561
	Nov	15,024	1,421	8.4	555
		Personal	Wages &		
		Income b/	Salaries b/	Taxable Sales c/	
		(\$ millions)	(\$ millions)	(\$ millions)	
2005	Qtr I	\$1,306,682	\$718,796	\$128,441	
	Qtr II	1,326,949	727,834	132,901	
	Qtr III	1,357,686	745,753	137,349	
	Qtr IV	1,380,012	754,147	137,712	
2006	Qtr I	\$1,420,391	\$778,455	\$138,577	
	Qtr II	1,432,731	773,802	139,688	
	Qtr III	1,454,902	785,504	140,779	
	Qtr IV	1,473,240	798,945	140,528	
2007	Qtr I	\$1,491,280	\$813,746	\$142,917	
	Qtr II	1,510,395	821,086	140,544	
	Qtr III	1,529,991	828,135	138,526	
	Qtr IV	1,547,832	839,164	139,341	
2008	Qtr I	\$1,548,576	\$838,260	\$137,625	
	Qtr II	1,575,481	845,157	137,192	
	Qtr III	1,579,156	848,917	131,684	
a/ Seasonally adjusted by the California Department of Finance with the exception of the nonagricultural and manufacturing employment and the unemployment rate which are seasonally adjusted by the California Employment Development Department.					
b/ Estimates by the U.S. Bureau of Economic Analysis					
c/ Taxable sales estimates for 2008 are preliminary.					



## ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are manufacturing employment and taxable sales. These series are discussed in the technical note below.

### TECHNICAL NOTE

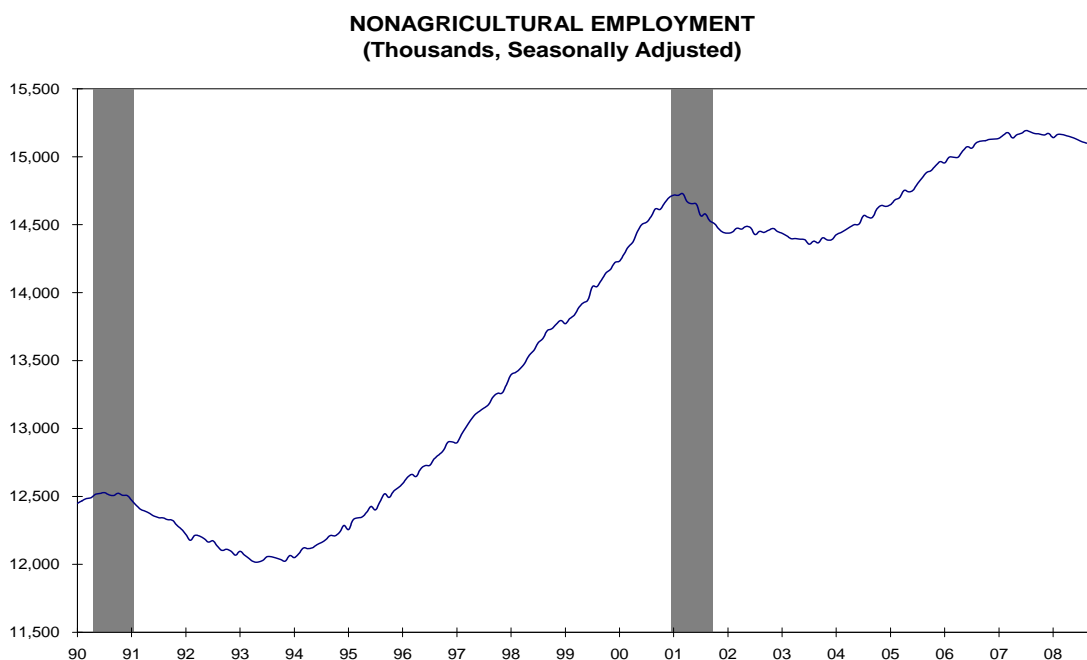
Whenever appropriate, data used in the charts have been seasonally adjusted. The method of seasonal adjustment is the X-12 Arima program. Persons interested in a detailed description of this method are referred to the U.S. Census Bureau's Statistical Research Division.

Under the X-12 Arima method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

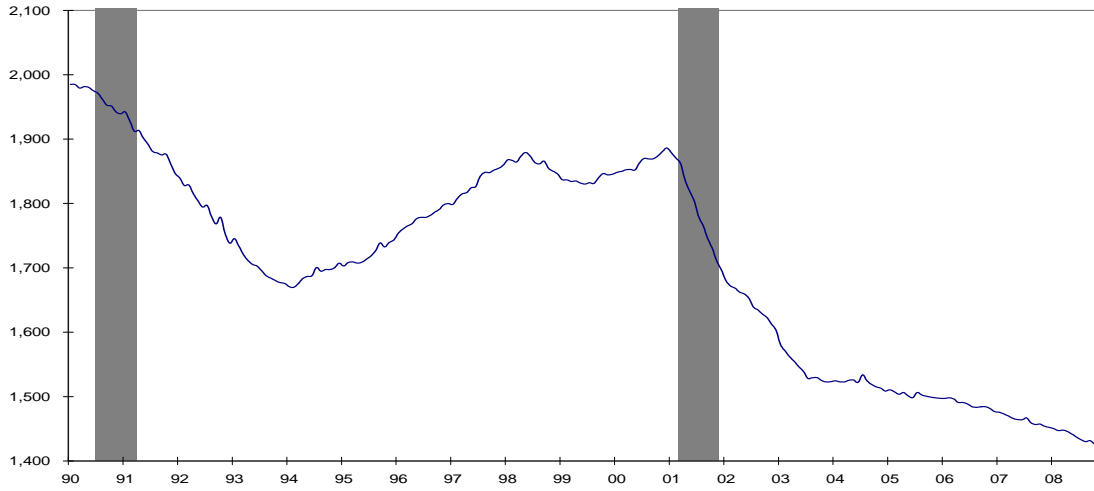
The manufacturing employment series is an addition to the NBER indicator list. It is used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is, therefore, a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950.

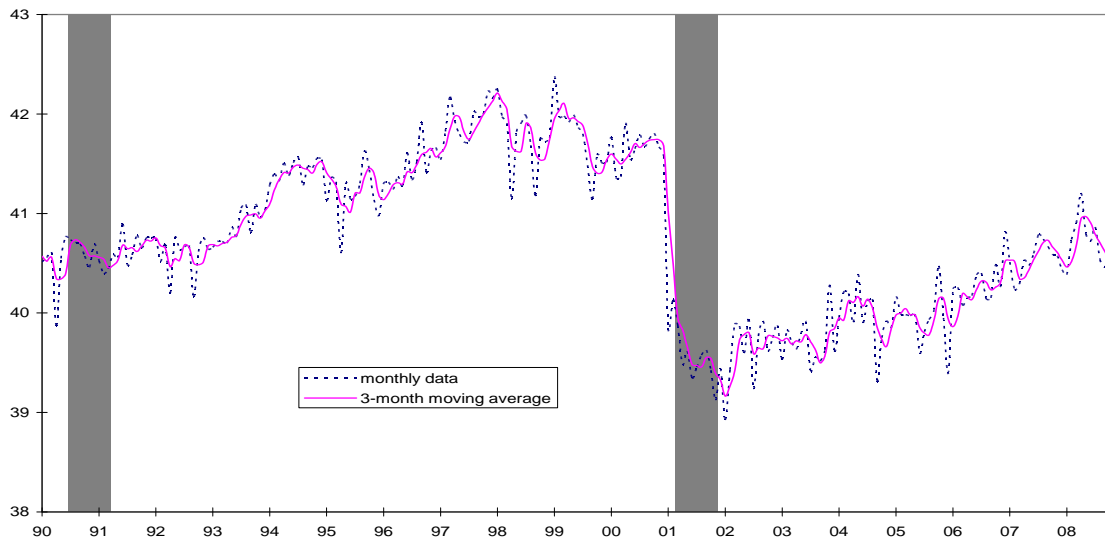
The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.



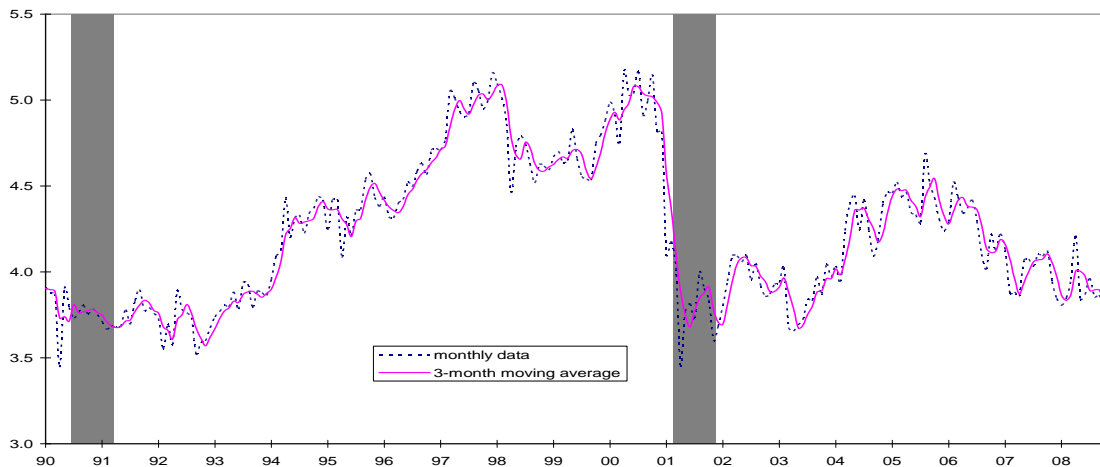
**MANUFACTURING EMPLOYMENT**  
(Thousands, Seasonally Adjusted)



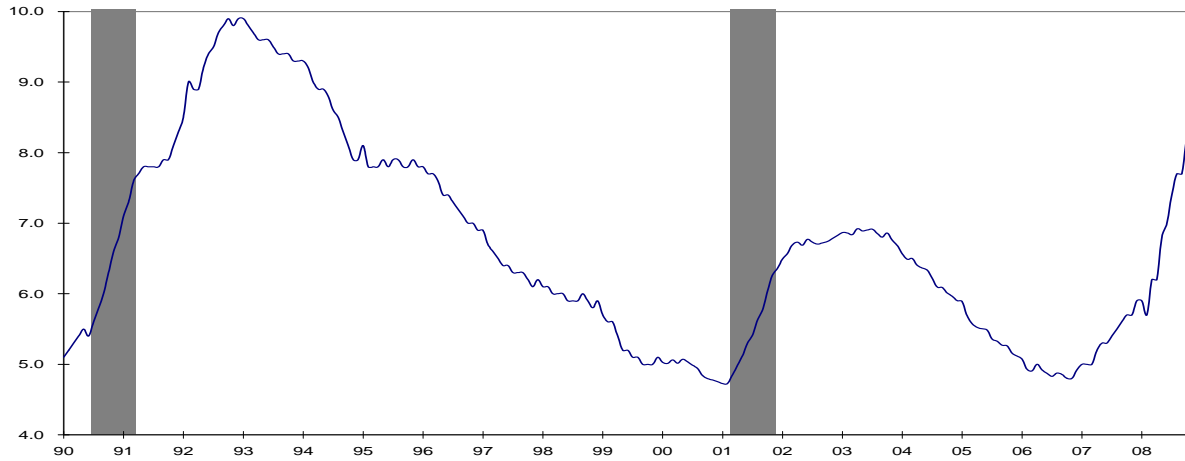
**AVERAGE WEEKLY HOURS, MANUFACTURING**  
(Seasonally Adjusted)



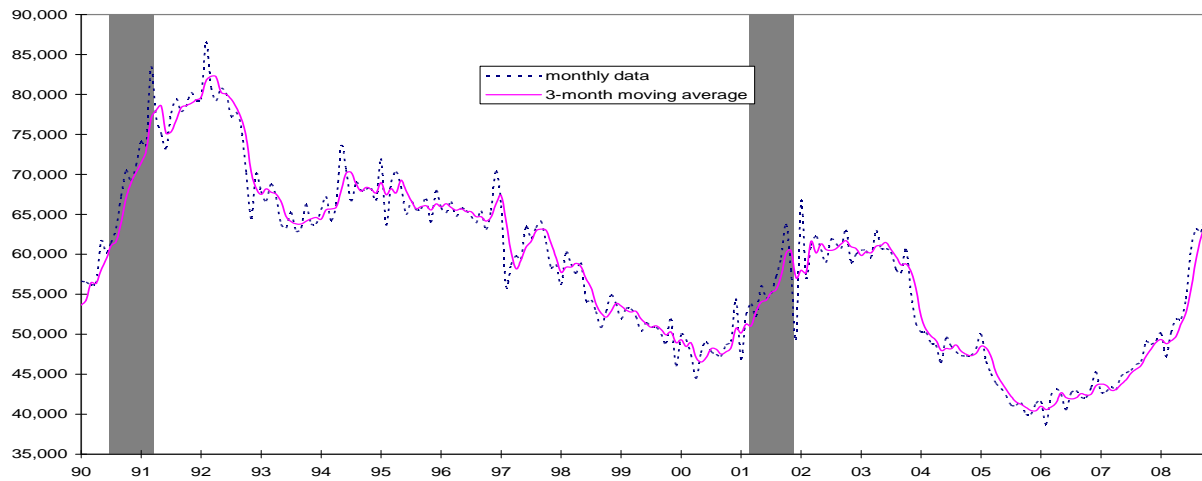
**AVERAGE OVERTIME HOURS, MANUFACTURING**  
(Seasonally Adjusted)



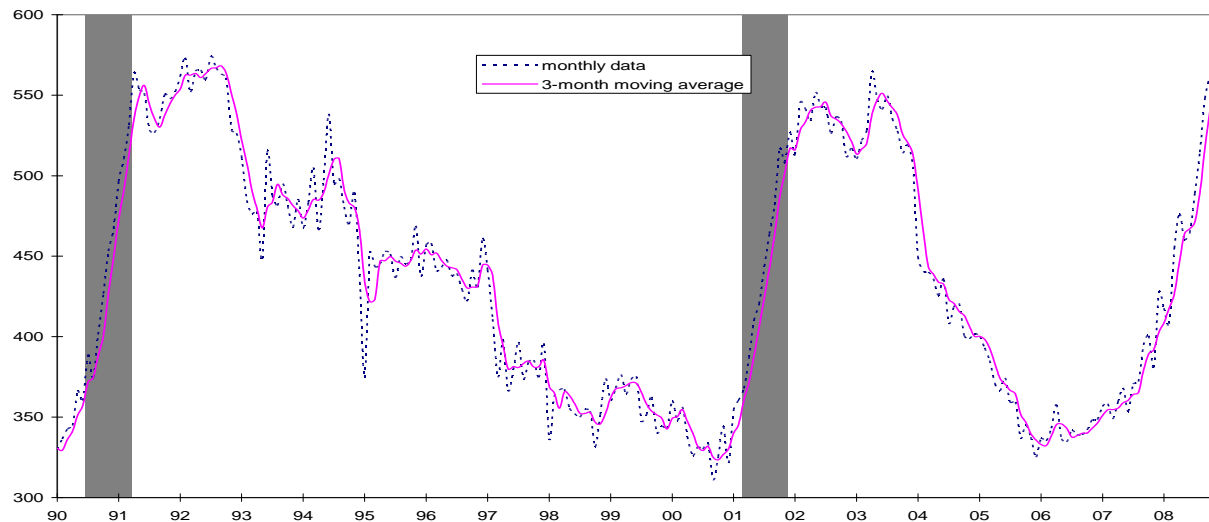
**UNEMPLOYMENT RATE  
(Percent)**



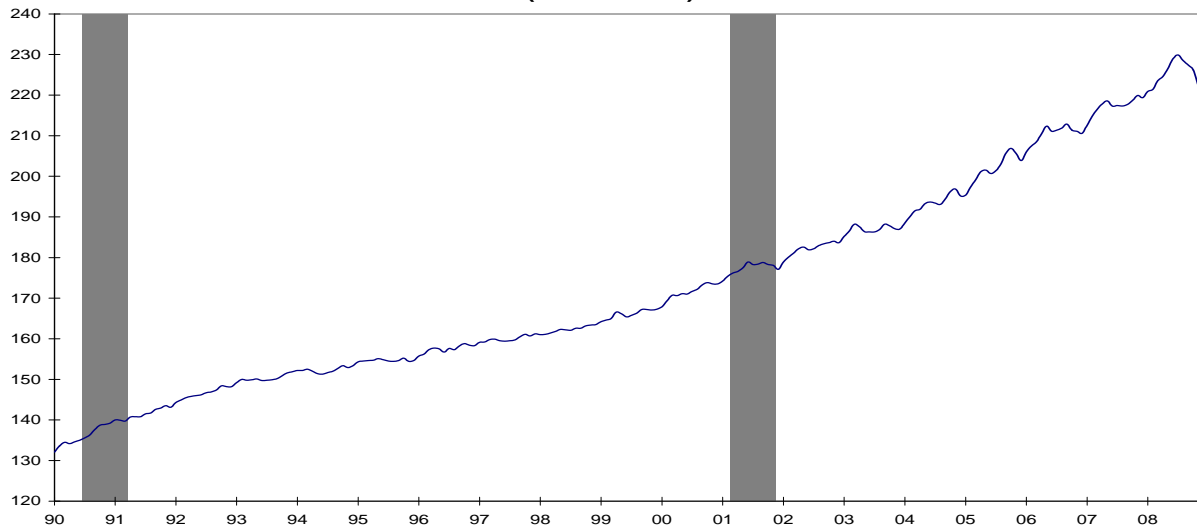
**INITIAL AND TRANSITIONAL CLAIMS FOR UNEMPLOYMENT INSURANCE  
(Weekly Average, Seasonally Adjusted)**



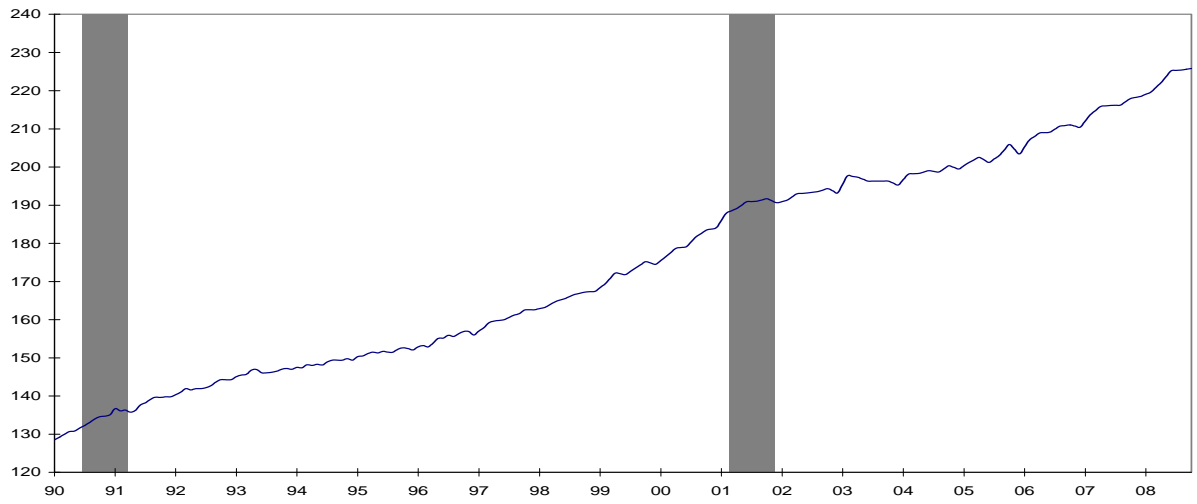
**UNEMPLOYMENT, AVERAGE WEEKS CLAIMED  
(Thousands, Seasonally Adjusted)**



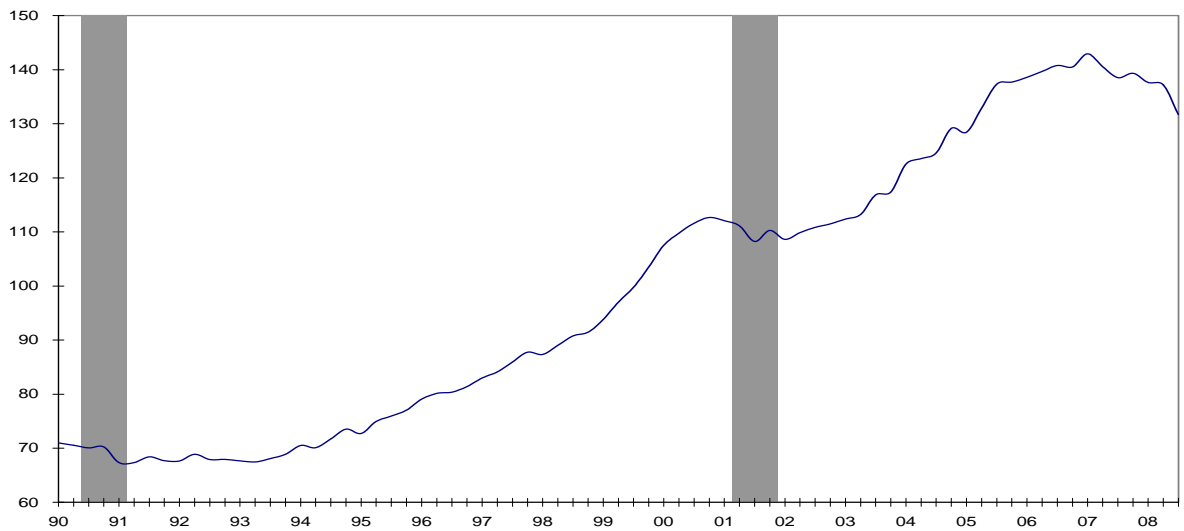
**CONSUMER PRICE INDEX, LOS ANGELES  
(1982-84=100)**



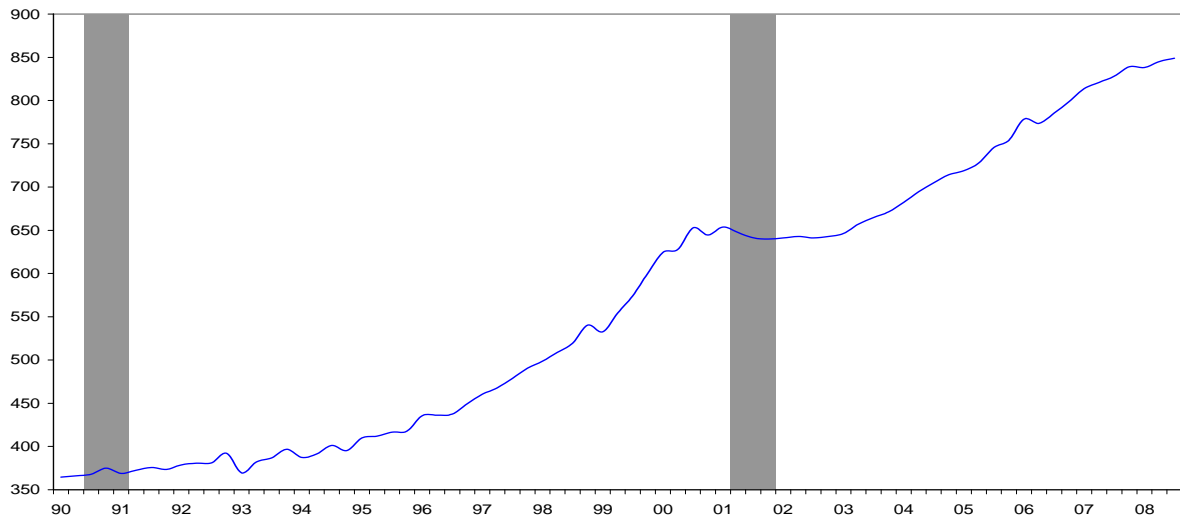
**CONSUMER PRICE INDEX, SAN FRANCISCO  
(1982-84=100)**



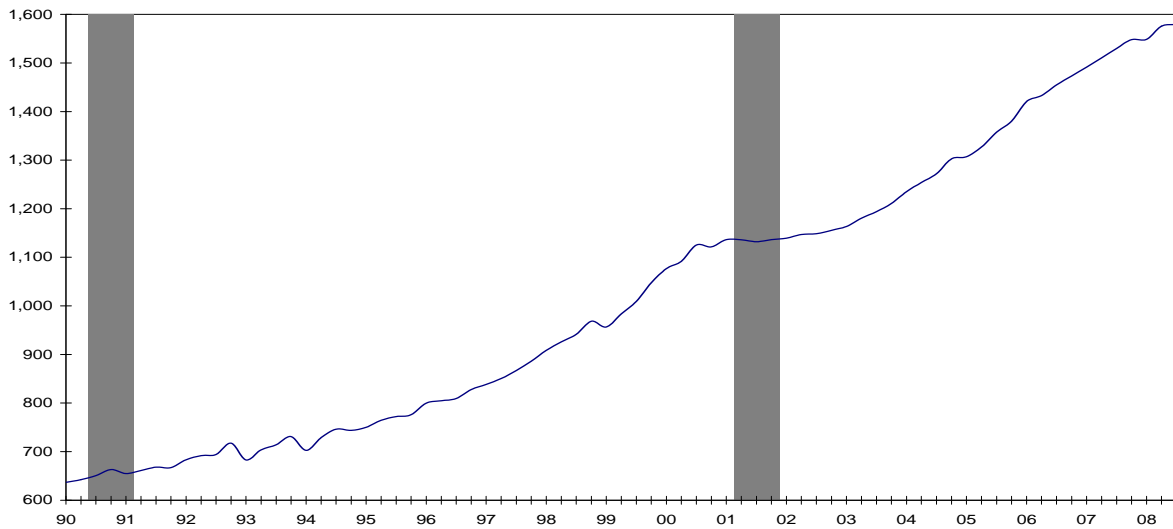
**TAXABLE SALES  
(\$ Billions, Seasonally Adjusted)**



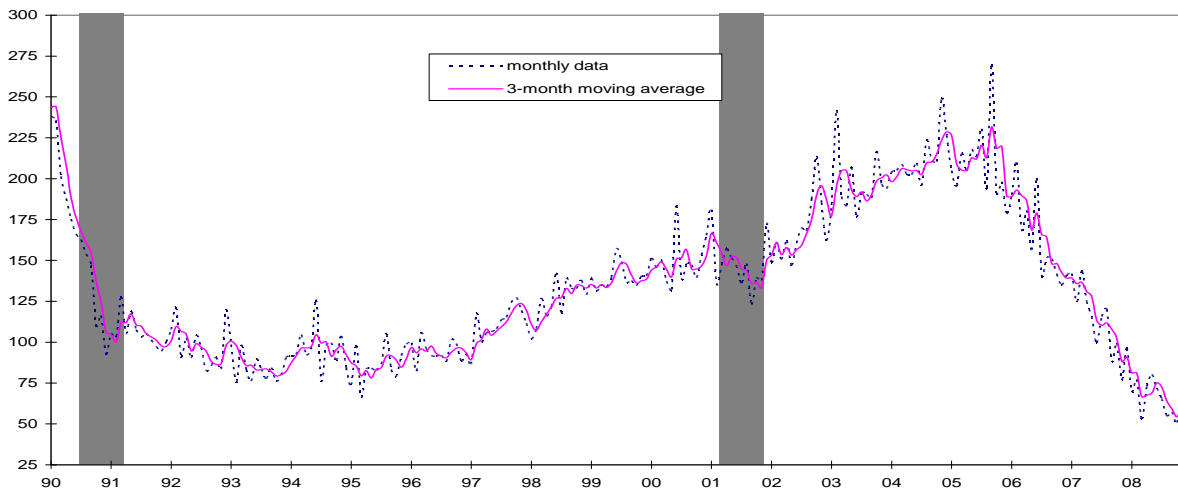
**TOTAL WAGES AND SALARIES**  
(\$ Billions, Seasonally Adjusted)



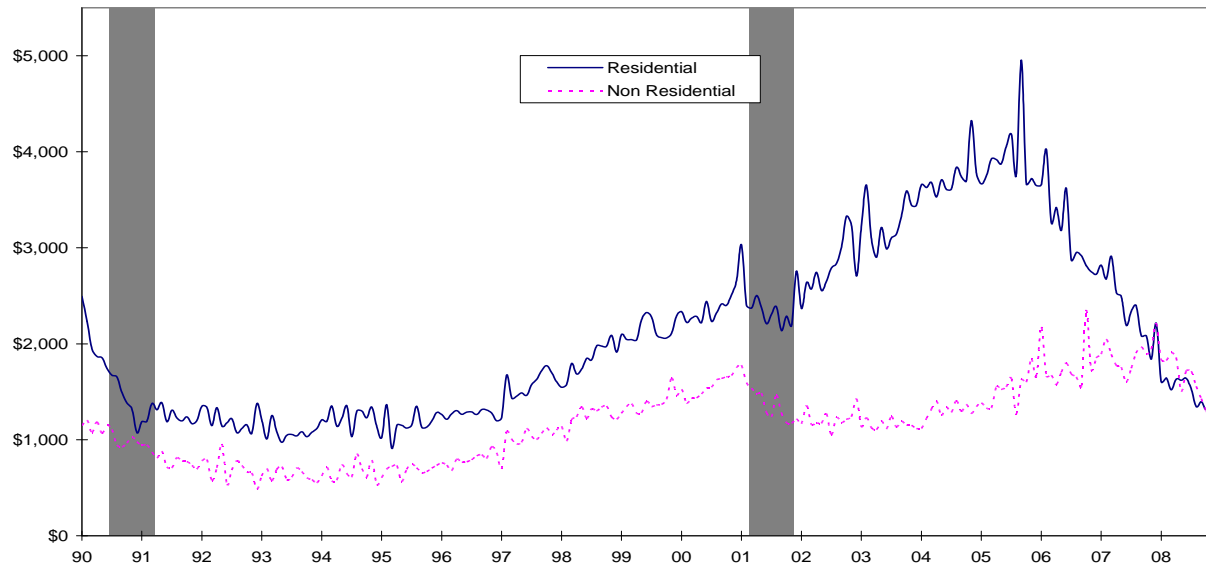
**PERSONAL INCOME**  
(\$ Billions, Seasonally Adjusted)



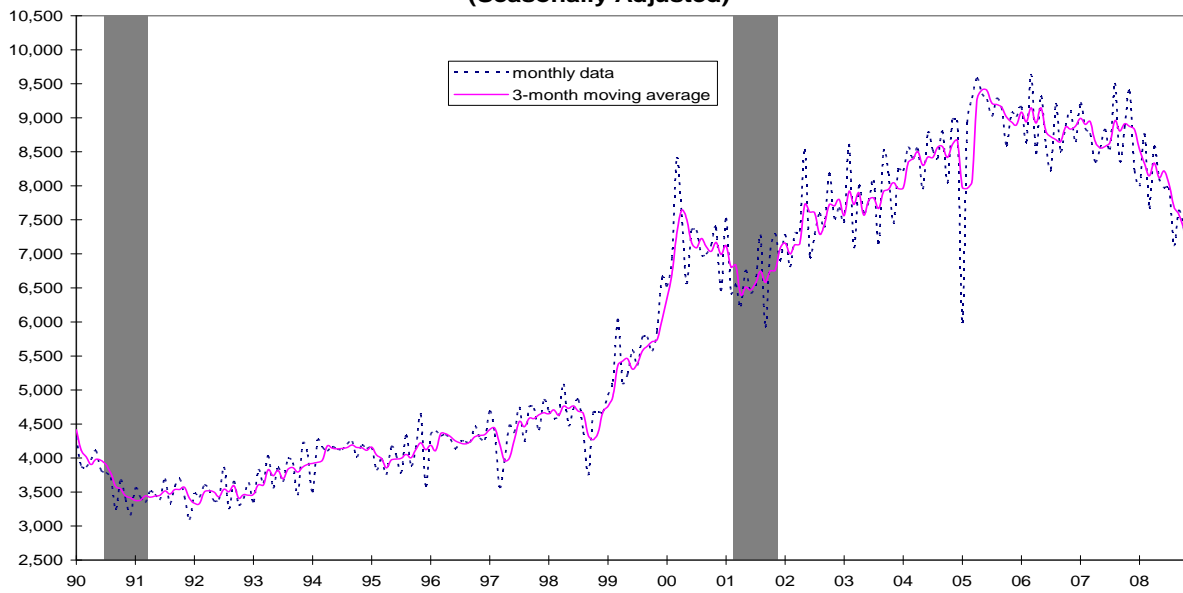
**NEW HOUSING UNITS AUTHORIZED BY BUILDING PERMITS**  
(Thousands, Seasonally Adjusted At Annual Rate)



**RESIDENTIAL AND NONRESIDENTIAL BUILDING PERMIT VALUATION**  
(Dollars In Millions, Seasonally Adjusted At Annual Rate)



**NEW BUSINESS INCORPORATIONS**  
(Seasonally Adjusted)



## CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national and international events of general interest have also been included.

### ---2007---

January 1	California minimum wage increased to \$7.50 per hour from \$6.75.
January 11	Vietnam becomes WTO member.
Mid-January	Freezing temperatures in California caused some \$1.3 billion in crop losses.
January 25-26	Sales of both new and existing homes in the U.S. suffered sharp declines last year. The plunge in new home sales was the biggest drop since 1990 and sales of existing homes saw its biggest decline since 1989.
February	Crippling winter storms blanketed large swaths of the Midwest and Northeast with snow, ice and freezing rain.
February 21	Rising default rates hitting subprime mortgage industry hard.
February 27	Dow Jones industrial average down 416 points, biggest one-day point loss since 2001, after declining markets in China and Europe and a steep drop in durable goods orders triggered a massive sell-off on Wall Street.
February 28	GDP grew at a 2.2 percent pace in the 4 <sup>th</sup> quarter –a considerably weaker rate than what the government first estimated.
March 2	The latest benchmark revision to the California labor market statistics shows nonfarm payroll employment growth was considerably stronger than what was first estimated.
March 14	President Bush issues a disaster declaration for California counties hurt by the January deep freeze.
March 29	Fourth quarter GDP revised upwards to 2.5 percent.
April 16	The number of default notices sent to California homeowners last quarter increased to its highest level in almost ten years, the result of flat appreciation, slow sales, and post teaser-rate mortgage resets.
April 25	Dow Jones Industrials close above 13,000 for the first time.
April 27	First quarter GDP increased at an annual rate of 1.3 percent.
May 3	S&P 500 closed above 1,500 for the first time in more than six years. Dow Jones Industrials surged to a record high for the sixth time in seven sessions.

May 4	US payroll job growth slowest since 2004.  The Dow Jones industrial average hit another record high making this the longest bull run in 80 years.
May 31	First quarter GDP increased at an annual rate of 0.6 percent. That's down from its initial estimate of 1.3 percent growth.
July 24	Federal minimum wage increased to \$5.85 from \$5.15 per hour.
July 26	The Dow Jones industrial average dropped 311.50 points or 2.3 percent amid concerns about housing and credit markets.
August 2	Mattel says it is recalling 1.5 million Chinese-made toys worldwide marking the latest in a string of recalls that have fueled U.S.-China tensions over the safety of Chinese products.
August 9	The Dow Jones industrial average was down 387.18 points or 2.8 percent as worries about the global credit market sparked a broad sell-off in stocks.
August 10	The Federal Reserve injected \$38 billion into the banking system in an effort to provide liquidity as needed to keep financial markets operating normally.
August 17	The Federal Reserve, reacting to concerns about the subprime lending crisis, cut its discount rate half a percentage point to 5.75 percent.
August 23	Bank of America invests \$2 billion in Countrywide Financial Corporation, helping the nation's largest mortgage lender shore up its finances as it struggles with a liquidity crunch.
August 24	California Governor Arnold Schwarzenegger signs the 2007-08 state budget bill.
August 28	The Dow Jones industrial average closed down 280.28 points or 2.1 percent as investors were hit by fresh worries over declining consumer confidence, falling home prices, shrinking profits on Wall Street and uncertainty about the Federal Reserve.
August 30	Second quarter GDP increased at an annual rate of 4 percent. That's up from its initial estimate of 3.4 percent growth.
September 10	Blasts rip Mexico gas and oil pipelines.
September 18	Federal funds rate target reduced from 5.25 percent to 4.75 percent. Discount rate cut from 5.75 percent to 5.25 percent.
September 27	Second quarter GDP increased at an annual rate of 3.8 percent. That's down from its preliminary estimate of 4 percent.
October 21-26	Southern California wildfires.
October 31	Federal funds rate target reduced from 4.75 percent to 4.50 percent. Discount rate cut from 5.25 percent to 5 percent.
November 1	The Federal Reserve injects \$41 billion in temporary reserves into the US money markets.



November 5-	Members of the Writers Guild of America strike
November 12	Citigroup, Bank of America, and JPMorganChase agree to a \$75 billion superfund to restore confidence to credit markets.
November 15	US House of Representatives passes the Mortgage Reform and Anti-Predatory Lending Act of 2007.
December 6	President Bush announces a plan to voluntarily and temporarily freeze the mortgage rates of a limited number of mortgage debtors holding adjustable rate mortgages.
December 11	Federal funds rate target reduced from 4.50 percent to 4.25 percent. Discount rate cut from 5 percent to 4.75 percent.
December 12	The Federal Reserve injects \$40B into the money supply and coordinates such efforts with central banks from Canada, United Kingdom, Switzerland and European Union.
December 18	The Federal Reserve approves measures to give mortgage holders more protection to prevent the current housing crisis from worsening further.
December 20	Third quarter GDP increased at an annual rate of 4.9 percent.
December 21	In California, sales of new and existing houses and condos were down 39 percent from a year ago in November. Sales have declined in the last 26 months on a year-over-year basis. The median price paid for a home was down 2.4 percent from the prior month and down 11.9 percent from a year ago. Financing with adjustable-rate mortgages and with multiple mortgages have dropped sharply. Foreclosure activity is at record levels.
December	Banks, mortgage lenders, real estate investment trusts, and hedge funds continue to suffer significant losses as a result of mortgage payment defaults and mortgage asset devaluation.

### ---2008---

January 1	California minimum wage increased to \$8.00 per hour from \$7.50.
January 11	Bank of America agrees to purchase Countrywide Financial.
January 14	Fitch assigns Negative Rating Watch to State of California.
January 21-22	Global stock markets plunge.
January 22	Federal funds rate target reduced from 4.25 percent to 3.5 percent, the biggest one-day interest rate reduction on record.
January 30	Federal funds rate target reduced from 3.5 percent to 3 percent.
February 12	Hollywood writers strike ends.
February 19	Crude oil price tops \$100 a barrel.
March 13	Gold futures hit \$1000 an ounce for the first time. Crude oil price tops \$110 a barrel. Gas prices rise to another record high.

March 16	JPMorgan agrees to buy Bear Stearns for a mere fraction of what it was once worth.
March 17	The Fed expanded the range of programs to boost financial market liquidity and cut the discount rate by 25 basis points, to 3.25 percent
March 18	Federal funds rate target reduced from 3 percent to 2.25 percent.
March 27	Fourth quarter GDP increased at an annual rate of 0.6 percent, compared with 4.9 percent in the third quarter.
April 15	Retail chains caught in a wave of bankruptcies.
April 16	Consumer prices, over the past 12 months, is up by 4 percent, reflecting sharp gains in energy costs, which are up 17 percent over that period, and food prices, which are up 4.4 percent.
April 30	Federal funds rate target reduced from 2.25 percent to 2 percent.  First quarter GDP increased at an annual rate of 0.6 percent.
July 6	Extended unemployment insurance benefits begin.
July 11	IndyMac Bank seized by federal regulators.
July 30	President Bush signs housing rescue law.
August 8	Georgia-Russia conflict escalates.
August 28	Second quarter GDP increased at an annual rate of 3.3 percent.
September 1	Hurricane Gustav strikes land west of New Orleans.
September 7	The U.S. government takes over Fannie Mae and Freddie Mac.
September 13	Hurricane Ike hits Texas.
September 14	Merrill Lynch sold to Bank of America.
September 15	Lehman Brothers files for bankruptcy protection.
September 17	The Federal Reserve loans \$85 billion to American International Group (AIG).
September 19	Treasury to provide temporary guarantees for money market mutual funds.
September 23	Governor Schwarzenegger signs record-late state budget.
September 25	Washington Mutual was seized by the FDIC, and its banking assets were sold to JP MorganChase.
September 26	Second quarter GDP increased at an annual rate of 2.8 percent.
September 29	Citigroup buys banking operations of Wachovia.
October 1	Financial crisis spreads to Europe.

October 3	The Emergency Economic Stabilization Act (commonly referred to as a bailout of the U.S. financial system) became law.  Wells Fargo to merge with Wachovia.
October 6 - 10	Worst week for the stock market in 75 years.
October 6	Fed provides \$900 billion in short-term cash loans to banks.
October 7	Fed makes emergency move to lend around \$1.3 trillion directly to companies.
October 8	Federal funds rate target reduced from 2 percent to 1.5 percent. The discount rate was cut to 1.75 percent.
October 11	The Dow Jones Industrial Average caps its worst week ever with its highest volatility day ever recorded in its 112 year history.
October 12	European leaders announce recapitalization plans for Europe's banks.
October 24	OPEC to cut oil output by 1.5 million barrels a day.
October 29	Federal funds rate target reduced from 1.5 percent to 1 percent.
October 30	Third quarter GDP declines 0.3 percent.
November 3	Boeing machinists' 57-day strike ends.
November 15-	Wildfires burn five Southern California counties.
November 17	Japan is officially in recession.
November 24	The federal government approves plan to help Citigroup.
December 1	Recession in the US began in December 2007, according to NBER.
December 16	The Federal Reserve cut the federal funds rate target to a range of between zero percent and 0.25 percent.
December 17	OPEC to cut oil production starting January in a bid to prop up falling oil prices.
December 19	U.S. auto industry bailout approved.
December 23	Third quarter GDP decreased at an annual rate of 0.5 percent.